Discovery Benefits
FSA • HSA • HRA • TSA • COBRA • Billing Solutions

www.DiscoveryBenefits.com
Phone: 866-451-3399 • Fax: 866-451-3245
PO Box 2926 • Fargo, ND 58108-2926
customerservice@discoverybenefits.com

Health Savings Account (HSA) FAQ for Participants

What is a Health Savings Account (HSA)?
An HSA works like an Individual Retirement Account. You deposit money tax-free and it grows tax-free until you use it. HSAs are individually owned accounts that allow you to set aside pre-tax dollars for medical expenses. Interest or dividends accumulate tax-free; payment of qualified medical expenses has no additional tax consequences. You decide how to invest and grow your HSA.

To open an HSA, you must be enrolled in a High Deductible Health Plan (HDHP). Use the money in your HSA to pay for the plan's deductible, co-insurance, and other non-covered expenses. Once your deductible is met, the HDHP kicks in to pay for major health costs. Even if an HDHP no longer covers you, your account remains active and you can use the remaining balance for medical expenses, but you can no longer make contributions. The assets in the HSA account always belong to you. Funds remain in the account from year to year unless they are used.

An HSA is required to be set up with a qualified custodian or trustee. Discovery Benefits' custodian is HealthcareBank.

Who can participate in an HSA?
Individuals who are covered by a High Deductible Health Plan (HDHP) may participate in an HSA.

Individuals may be excluded from an HSA if they are:
- Covered under a spouse's or dependents employer's health plan that is not an HDHP.
- Claimed on someone else's taxes.
- Covered by Medicare (Part A and/or Part B).
- Covered under an MSA or HRA, unless the coverage under the MSA or HRA is limited to permitted benefits or specific benefits not provided by the HDHP.

If an HSA is offered through an employer's cafeteria plan, the eligibility requirements of the cafeteria plan apply. Sub S corporation owners, their spouses and dependents employed by the company may not participate in an HSA. Neither can sole-proprietors, 2% or more owners in a partnership, limited liability partnerships or limited liability corporations.

Who can make contributions to an HSA?
HSA's allow contributions to be made by employers, eligible individuals or both. Employer contributions are subject to Non-Discrimination rules (known as comparability rules).

How much can I contribute to my HSA?
You can contribute up to the annual statutory maximum as long as your HSA is established by December 1st of the calendar year. The maximums are as follows:

2015:
Single HDHP Coverage = $3,350
Family HDHP Coverage = $6,650
Catch-up Contribution (age 55 by the end of the year) = $1,000

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2014:

Single HDHP Coverage = $3,300
Family HDHP Coverage = $6,550
Catch-up Contribution (age 55 by the end of the year) = $1,000

What is the contribution deadline?
The contribution deadline is April 15th following the year for which the contributions were made.

What are the tax advantages of owning an HSA?
Triple Tax Savings:

- Contributions are tax free*
    - Employee contributions that are deductible over-the-line (i.e. deductible even by non-itemizers).
    - Employer contributions that are excluded from income and employment taxes.
    - Salary reduction contributions made through a Section 125 cafeteria plan.
- Earnings are tax free
- Withdrawals are tax free when made for eligible medical care expenses

*All three forms of contributions are exempt from federal income taxes. Employer and salary reduction contributions (Section 125 cafeteria plan) are exempt from FICA and FUTA as well. For specific tax advantages, consult your tax advisor.

When is my HSA effective?
When we receive your HSA enrollment, the account will be established. The account then becomes effective on the first of the month following the set up. For example, your HSA application is sent to Discovery on January 15th and your account was established on January 17th. Your HSA will be effective February 1st; the first of the month following the date the account was established. Eligible expenses will be those incurred February 1st or later. The effective date of the HSA cannot be backdated to the date your HDHP was established.

What is the USA PATRIOT Act?
Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens a Health Savings Account. What this means to you: when you open an HSA with Discovery Benefits, we will ask for your name, street address, date of birth and other information that will allow us to identify you.

The process takes approximately two days during which time your account will be blocked. Once completed and your identity verified, access to your HSA will be unblocked and made available to you. If your identity is not verified (e.g. this can happen if you moved recently and your new address is not on file with the appropriate government agency), you may be asked to provide proof of your identity by providing a copy of your utility bill verifying your address or a copy of your Social Security card if the number does not match the verifying source's records.

Can an individual have more than one HSA?
An individual may contribute to more than one HSA for themselves; however, the total contribution of all HSA contributions may not exceed the annual limit. You and your spouse may both have an HSA if you both have high deductible health insurance coverage.

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Can an individual participate in both an HSA and a Medical Savings Account (MSA) or Health Reimbursement Arrangement (HRA)?
If the MSA or HRA is unlimited, through your employer or your spouse's employer, you are not eligible for an HSA. If the MSA or HRA is limited to dental, vision and/or preventive care expenses, you can have it with the HSA. Ultimately, it is the participant's responsibility to maintain IRS compliance within their plans.

Can an individual participate in both an HSA and a Dependent Care FSA?
Yes.

What expenses are eligible for reimbursement from an HSA?
The Medical FSA and HSA Eligibility List is a summary of common expenses claimed against Medical Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs). Due to frequent updates to the regulations governing FSA's and HSA's, this list does not guarantee reimbursement but instead is to be utilized as a guide for the submission of claims.

How and when can money be taken out of an HSA?
Account holders may make a withdrawal (also known as a distribution) at any time. Distributions received for qualified medical expense not covered by the high deductible Health plan are distributed tax-free. Distributions can be requested via your online account. Unless individuals are disabled, age 65 or older, or die during the year, they must pay income taxes plus an additional 20% on any amount not used for qualified medical expenses. An individual who is disabled or reaches age 65 can receive non-medical distributions without penalty but must report the distribution as taxable income.

Why do I need to designate beneficiaries?
The tax treatment of an HSA after the death of the account holder depends on whether a spouse or non-spouse is designated as a beneficiary of the account. If there is no designated death beneficiary, the fair market value of the account will be included in the account holder's final income tax return and estate tax return.

Spouse Beneficiary: If the deceased account holder's designated beneficiary is a spouse, the HSA is treated as the surviving spouse's own HSA. Distributions to the surviving spouse for qualified medical expenses would be tax free.

Non-spouse Beneficiary: If a non-spouse beneficiary is named, the HSA ceases to be an HSA as of the date of death. The non-spouse beneficiary includes the balance of the HSA in his or her income for the year of death.

Can I rollover funds from another account?
Rollover contributions to an HSA are permitted as long as the source of the rollover funds is another HSA or Archer MSA. You cannot rollover funds from a Health FSA. A rollover of HSA or Archer MSA funds must be completed within 60 days from the date of constructive receipt to avoid taxation. Only one rollover every 12 months is permitted. When account holders make a rollover contribution, they must certify to the custodian or trustee in writing that they are making a rollover contribution. Once made, the certification is irrevocable.

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Are there any fees associated with my HSA account?
Maintenance: Typically, employers will cover fees that are associated with your HSA while you are an active employee. If you leave your current employer, but keep your HSA open with Discovery Benefits, there may be maintenance fees assessed to your account.

How do I report HSA activity on my tax return?
The IRS has stated that HSA contributions and distributions are reportable transactions.

Contributions: Employer HSA contributions are reported on the W-2 for each employee that received a contribution. It is reported on the W-2 as non-taxable wages. Regardless of whether HSA contributions are made by the account holder or the employer, these contributions must be reported on the individual tax return of the account holder. Contributions to and distributions from HSAs are reported by the account holder on Form 8889 and attached to Form 1040.

Distributions: Distributions from HSAs, if for qualified medical expenses, will avoid income tax consequences to the recipient. For this reason, the IRS requires the reporting of these distributions. The account holder will receive Form 1099-SA reporting distributions made during the tax year and Form 5498-Sa reporting contributions made to the HSA during the tax year. 1099-SAs are sent by January 31st. 5498-SAs are sent in May, after the April 15th tax filing deadline. It is the account holder's responsibility to keep records to support distributions and to complete Form 8889 and attach it to Form 1040.

The account holder is responsible to report the contributions and distributions to the IRS and is ultimately responsible for ensuring that account transactions are within the allowed regulations. If an error is made by Discovery Benefits or its custodian, Discovery Benefits would be responsible for that activity.

Should I keep my receipts for HSA eligible items?
Yes. Discovery Benefits does not require you to submit substantiation for HSA reimbursements. If the IRS were to audit you, they may request the paperwork for your HSA claims.